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NOTES

WASHINGTON NOTES

THE TARIFF CONTEST

The special session of Congress (61st Congress, 1st session) summoned by President Taft for consideration of the tariff question, met on April 15, and the so-called Payne tariff bill (H. R. 1438) was introduced on Wednesday, April 17, preceded by a brief message from the President in which prompt consideration of the tariff question was recommended. The Payne tariff was immediately taken up for general debate; discussed for two weeks (March 22–April 3); then discussed under the five-minute rule for the purpose of amendment for about one week (April 5–9); and passed at 8:15 p. m. on the latter date. It was immediately transmitted to the Senate (April 10); was referred to the Senate Finance Committee and reported back to the Senate in a greatly changed form, April 12; and was brought up for debate in open session, April 15, though actual discussion was deferred until April 19. The Payne tariff has thus passed through its first three important stages: formation at the hands of the Ways and Means Committee; debate and passage by the House; and reconstruction by the Senate Finance Committee.

The leading characteristic of the Payne tariff bill, differentiating it from preceding tariffs, has been, up to date, its retaliatory aspect. This retaliatory element is found in three features: the provision of a maximum tariff schedule, generally about 20 per cent. higher than the Dingley rate; the extension of the principle of countervailing duties; and the adoption of a retaliatory patent policy. The maximum system has been under consideration for a long time and was promised by Chairman Payne when the question of tariff revision was first taken up. Mr. Payne then merely referred to the coming tariff as certain to be a "maximum-and-minimum tariff bill," leaving it open to question whether this maximum-and-minimum system should be based on principles analogous to those adopted by European countries or should rest upon a foundation of its own. As embodied in the Payne tariff bill, the minimum rates were to go into operation practically at once, and to be automatically displaced by the maximum rates whenever it should appear to the administrative authorities that any foreign country was failing to concede to products of the United States as favorable treatment

in its ports as was allowed to products of other countries in such ports. The countervailing duty provision was a special development of the maximum idea, inasmuch as it applied countervailing duties in cases where export taxes were levied by foreign countries (e. g., to South American coffee), or applied higher countervailing duties in the case of certain products already on the maximum list, or to products nominally on the free list but nevertheless subject to countervailing duties when it was made plain that a foreign country was discriminating against us by failing to give such a commodity free entry to its ports. The retaliatory patent section (sec. 41 of the original Payne Bill) provided for applying to patents granted to citizens of foreign countries by our own government the same set of laws and regulations which were applied by governments of foreign countries to patents granted to American citizens. This was a piece of legislation which had been demanded for some time by manufacturers who felt themselves aggrieved because of the discriminatory treatment accorded to our goods by foreign nations.

In dealing with particular schedules the Payne tariff bill was more than disappointing. The wool schedule, elaborately investigated and analyzed by experts before the Committee on Ways and Means, was left very nearly identical with the schedule as it appeared in the Dingley Law, notwithstanding the grave abuses inherent in it; the excessive protection admittedly accorded by it to the industry; and the fact, recently developed, that it discriminates sharply between manufacturers of woolens and of worsteds, greatly to the disadvantage of the former. The bill left the silk schedule unchanged, notwithstanding that a new draft, altering the duties from *ad valorem* to specific, had for a long time been incorporated in the Ways and Means bill prior to the date when reported. The cotton schedule was left largely unchanged, except for a surreptitious alteration intended to grant a higher protection upon certain classes of goods. In these textile schedules the only notable new features were the reduction of wool "tops" from the excessive and unreasonable figures of the Dingley Law to a basis equal to the duty on scoured wool plus 6 cents per pound; the changing of the line of division in third-class wools so as to eliminate the extreme discrimination between the coarser and finer wools of this grade—*injurious as this was to carpet manufacturers*; and the introduction of a new system of counting threads in cottons whereby twisted threads including more than one filament were to be regarded as equivalent to a number of threads identical with the number of

filaments. The bill dealt with iron ore as had been expected by placing it upon the free list while it changed the status of lead and zinc ores to a moderate extent. It made a radical change in the free list by removing tea to the dutiable schedules at 8 or 9 cents per pound according to country of origin, while coffee was practically made dutiable by giving it a countervailing duty. On lumber the committee disappointed the expectations of those who had hoped to see this commodity on the free list. It accorded only a reduction from \$2 per thousand for rough lumber to \$1 per thousand with similar changes on the manufactured products. The great outcry regarding wood pulp and print paper during the past year produced a transfer of wood pulp practically to the free list and of print paper to a basis substantially one-third of the old rates. Hides went to the free list along with iron ore, and a moderate reduction in the duty on shoes was conceded. A farcical cut of 5 cents per hundred pounds on refined sugar was likewise introduced; while provision was made for the admission of 300,000 tons of sugar free from the Philippine Islands. Provision was also made for the free admission of a substantial amount of filler tobacco and cigars from the Philippines. In spite of the constant demand for the abolition of the countervailing duty on petroleum this was retained in the bill. The iron and steel schedules were largely rearranged but nowhere was the protection cut below a practically prohibitive point. The most notable change in these schedules was the reduction of the duty on pig iron to \$2.50 per ton (in place of \$4.00) and of the duty on scrap iron to 50 cents per ton. An indefensible increase in the duties on gloves and hosiery was introduced for the sole purpose of getting votes for the maintenance of the House oligarchy in its contest over the parliamentary rules. Other changes, while extremely numerous, were not of great importance.

One of the most significant features of the Payne Bill is to be found in its sections relating to customs administration. The bill provides for a new method of valuing goods in cases where such goods have no "home-market value." In such instances the valuation for assessing tariff duties is to be not less than the ordinary wholesale valuation in the American market. This change alone would practically abolish the existing trade treaty with Germany, worked out with so much difficulty two years ago, and the other commercial agreements resting thereon. Taken in conjunction with the maximum-tariff system of the Payne Bill, it of course completely alters our commercial relations with foreign countries. The

bill itself furthermore introduces serious innovations into the internal-revenue system by providing for an increase in the duty on cigarettes and tobacco of certain classes. An additional duty on beer, which had been suggested at intervals during the winter, was omitted as the result of political pressure. Changes in the system of applying the customs law administratively were also introduced at great length. Were these to be accepted they would go far to transfer the customs-administration functions of the Treasury Department to the Board of General Appraisers or its successors at New York. The addition of an inheritance section did little to cover the glaring revenue inadequacy of the new measure. This was further emphasized by sections providing for a great extension of the bond-issuing power of the administration.

Debate in the House of Representatives, both general and special, regarding the Payne tariff bill, revealed a surprisingly low level of economic intelligence as well as of political morality. No important innovations were introduced during the discussion. Pressure from western men and the necessities of political relationships required the taking of votes on petroleum, tea and coffee, barley and barley malt, lumber, and hides. The result was to retain hides and lumber at the status provided in the Payne Bill; transfer petroleum unreservedly to the free list without any countervailing duty; make tea and coffee free; and somewhat raise the duties on barley and barley malt, notwithstanding that they were already practically prohibitory in the Payne Bill. Committee amendments proposed by the Ways and Means organization itself were of relatively little importance, the most significant being a change in the arrangement of the maximum schedule; the modification of the general retaliatory provisions in such a way as to permit colonies and mother countries to discriminate in favor of one another without subjecting themselves to our maximum rates; a few alterations in the iron and steel schedule; the elimination of the objectional method of counting the threads in cotton cloth to establish its dutiable value; and the introduction of a provision relieving tobacco farmers of taxation as manufacturers of leaf tobacco. With these changes the bill passed the House by an almost strictly party vote of 217 ayes to 161 nays. One interesting feature of the discussion was the protectionist part played by Democrats who sold their votes for duties favoring the commodities in which they were interested, irrespective of party lines, although they voted nearly unanimously in favor of the motion of the minority leader, Champ Clark, to recom-

mit the measure with instructions to redraft it along "revenue-tariff lines," with light duties on "necessaries of life."

The Senate Finance Committee which had been at work for several weeks prior to the passage of the Payne Bill was not entirely ready to report when the House measure was sent to it; but in order to relieve public suspense resolved to report its minimum schedules, leaving the customs-administration provisions and the maximum schedules, as well as all other points, for later consideration. In the minimum schedules of the Aldrich Bill as reported to the Senate on April 12, no changes of an epoch-making sort are observable. A great number of modifications were introduced, some of them without any apparent good reason. The most notable alterations were the retransfer of iron ore to the dutiable list at 25 cents per ton; the reintroduction of the modes of counting threads in cotton cloth in a modified form; the restoration of wool "tops" almost to their original Dingley status; the abolition of the new classification of third-class wools; the substitution of a complete system of specific for *ad valorem* duties in the silk schedule; the alteration of the provisions for Philippine trade, particularly as regards sugar (preference being given to producers of less than 500 tons); a rearrangement of the steel and iron schedule; the dropping of the inheritance tax; the abandonment of the new Payne bond-issue provisions, and the elimination of the glove and hosiery increases. The committee expressly reserved the right to announce at a later date its determination with respect to coal and lumber. The whole impression produced by the Aldrich Bill was that it had been hastily put together under conditions of severe friction for the purpose of making a hurried report, leaving the way clear for elaborate trading later.

Up to the time that the Payne-Aldrich Bill was reported to the Senate it might fairly be said that no provision whatever had been made either for solving the revenue problem or for lightening the burden of tariff duties resting on the consumer. Official calculations showed that the average *ad valorem* rate of the Payne tariff was probably about 1 per cent. higher than the average *ad valorem* rate of the Dingley Law. The Aldrich Bill as reported was if anything higher than the Payne tariff. Except for readjustments at a few points where notorious abuses had existed nothing in either of these first drafts could be said to favor the better adjustment of rates or the better classification of items.